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WESTERN EUROPE - USSR: Reactions to Andropov's Offer

//Allied governments remain largely critical of General Secretary Andropov's INF proposal, although the Dutch and some West German opposition party members question the speed and tone of the West's rejection.// []

//The French remain the most vocal in their criticism of Moscow's offer to reduce Soviet "medium-range" missiles in Europe to match the number of French and British missiles. On Monday the French Ambassador reiterated to Foreign Minister Gromyko that French missiles are part of a national nuclear deterrent force and should not be included in any overall European count. The French are privately concerned that the Soviet offer will create a public relations problem for the Allies.// []

//In the Netherlands, a Foreign Ministry spokesman has expressed unhappiness with the quick US rejection without consultation and says that the Dutch may raise the matter with Washington. Although Canada's External Affairs Minister called Andropov's proposal a propaganda ploy, he said that it should be taken up at the talks in Geneva.// []

//The West German Government generally has characterized the proposals as inadequate but a step in the right direction. Several top Social Democrats, however, have criticized the rapid Western rejection of the Soviet offer. According to several press reports, Foreign Minister Genscher shares this criticism voiced by the opposition.// []

Comment: //The Soviets probably anticipated the British and French rejections. They evidently hoped, however, that the proposal would put increased pressure on West European governments for a delay in NATO's deployment schedule.// []

//While all the Allies continue to find fault with Andropov's offer, they fear that immediate and unqualified rejections could alienate their publics and obscure actual Soviet concessions. The West European press is already speculating about a compromise move to a lower level of SS-20 deployments.// []

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YUGOSLAVIA: IMF Agreement

Yugoslavia's recent agreement with the IMF on a stabilization program removes one obstacle to Western aid efforts but imposes new hardships on the economy.

The program reportedly calls for prices of commodities to rise sharply, including a 25-percent increase in the cost of coal and electricity. Interest rates will jump as high as 30 to 35 percent, compared with the current top rate of 21 percent. The dinar is to be devalued by 7.5 percent in January, followed by five monthly devaluations of 1.5 percent.

Belgrade last week tentatively agreed to the IMF program, which Western governments have insisted it accept before they will launch a rescue effort. The US Embassy believes that official approval will follow, allowing Belgrade to begin drawing down the last payment of the standby credit for 1980-83.

Comment: The measures will help correct but not solve some of Yugoslavia's economic problems. These include an overvalued exchange rate, negative real interest rates, and a price structure that does not reflect market forces.

To avoid rescheduling, Yugoslavia will have to depend on the willingness of Western governments and the Bank for International Settlements to put an aid package together. Western bankers, however, have not been impressed by previous efforts to stabilize the economy. They have expressed interest in seeing systemic economic reforms, which the IMF package apparently lacks.

Consumers will suffer further reductions in their standard of living. High interest rates and price adjustments will make it more difficult for firms to avoid bankruptcy, thereby adding to unemployment. As these problems intensify, Belgrade's weak political leadership may look for ways to ease the austerity program.

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ROMANIA: Request for More Debt Relief

Romania has notified the Paris Club that it wants to reschedule its debts for 1983 owed to Western governments and that it intends to open rescheduling negotiations with private banks in January. []

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Comment: Although the financing requirement for 1983 is half as large as that for this year, Bucharest needs the debt relief to help cover nearly \$2 billion in scheduled debt service payments. The smaller financing requirement for 1983, Romania's markedly improved trade performance in 1982, and restoration of the IMF standby credit probably will help Bucharest conclude successful rescheduling negotiations sooner than it did this year. Bucharest will find it difficult to meet its unrealistic trade targets in 1983, however, because of the impact substantial import cuts have had on growth and exports.

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PORTUGAL: New Prime Minister Nominated

Caretaker Prime Minister Balsemao's choice of former Education Minister Crespo to succeed him is a stopgap measure that is unlikely to give the country a strong government. Balsemao offered Crespo the nomination only after several more prominent Social Democratic leaders had refused it. Crespo now has to gain the approval of the Social Democratic Party's National Council, of the other two parties in the ruling Democratic Alliance, and of President Eanes. []

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Comment: Crespo is [] without a strong base in the Social Democratic Party. Although he probably will be approved by the Alliance and by Eanes, he will be hard pressed to form a government capable of postponing early parliamentary elections much beyond spring. Movement toward early elections would accelerate if either the Center Democrats--the second power in the Alliance--or Eanes refused to accept Crespo. The Social Democrats have announced that a rejection of their nominee would lead to the breakup of the Alliance. []

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PERU-FRANCE: Contract for Mirage 2000s

//Peru signed a contract in mid-December for 26
Mirage 2000 fighter aircraft, according to a press report
in Lima.

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The Mirage 2000 has a top
speed of over Mach 2 and can carry three Exocet air-to-
surface missiles, which Peru already has in its inventory.//

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Comment: //Peru probably chose the Mirage 2000 over
the US F-16 or the Soviet MIG-23 because it is an advanced
aircraft and because Paris offered favorable financing.
Deliveries may begin in 1984. Egypt and India also have
ordered Mirage 2000s.//

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